FORAGER

AUSTRALIAN SHARES FUND

MONTHLY UPDATE APRIL 2018 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 April 2018)							
	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	Since inception* (p.a.)
Australian Shares Fund (ASX:FOR)	2.77%	-3.12%	0.44%	7.83%	16.24%	16.02%	14.04%
S&P All Ords. Accum. Index	3.49%	0.00%	3.63%	6.44%	6.15%	7.79%	7.68%

*30 October 2009. Past performance is not an indicator of future performance.

Whilst it is usually a quiet month, April saw plenty of important announcements from companies in the Forager Australian Shares Fund.

Mining contractor **Macmahon Holdings** (MAH) announced the commencement of full operations at its largest job, mining the giant Batu Hijau copper and gold mine in Indonesia. The release was later than expected and it became clear why. In exchange for this contract and a large fleet of mining services equipment, Macmahon shareholders voted to issue more than 40% of the company's shares to Batu Hijau owner AMNT in July last year. The announcement included some unnerving amendments to the original contract, including a change from an "agreed margin" to a monthly "fee". Management are adamant the change doesn't negatively impact the overall project economics for Macmahon but scepticism is surely warranted. The company also reiterated its guidance of $40-$50m in earnings before interest and tax for this financial year.

Specialist life insurance company **Freedom Insurance** (FIG) announced a healthy rebound in sales and a significant acquisition. Listed in late 2016, Freedom Insurance had grown rapidly until a blip in October and November last year sent the share price crashing. Its April update - forecasting sales of $63m for the year to 30 June - suggests that the downturn was indeed temporary. New products, outside its traditional funeral insurance, are starting to sell well. That should give shareholders confidence in the near term prospects.

Further into the future, much will depend on the success of an acquisition announced alongside the sales update. Freedom has agreed to buy St Andrew's Insurance from **Bank of Queensland** (BOQ). The $65m purchase price equates to the current capital in the business and an estimate of future profits from policies already sold. It's an attractive deal given historical insurance company acquisition prices have also included a premium for brands and future sales pipelines (Freedom shareholders can thank current scrutiny of big banks' conflicted business models).

The most important rationale for the acquisition, though, is that Freedom thinks St Andrew's products are the perfect fit for its existing distribution network. Management have been working with **Swiss Re** (SWX:SREN) on creating Freedom's new products but the St Andrew's acquisition will allow it to accelerate those plans and keep more of the profits.

While that all sounds wonderful, St Andrews is a fully fledged insurance business that comes with associated regulatory and capital requirements. It is nothing new for this experienced management team but does bring new risks and opportunities for shareholders to understand.

Engineering consultancy **Cardno** (CDD) dismissed its new CEO Andrew Goodwin last month, after only appointing him in November. Goodwin's former employer, the **Snowy Mountains Engineering Corporation** (SMEC), is being investigated for bribery. Given his stay at Cardno was short, business disruption is likely to be minimal.

Goodwin replaced interim CEO Neville Buch who, along with Chairman Michael Alscher, has been running the business since late 2016. Buch and Alscher are representatives of private equity firm Crescent Capital, a 48% shareholder of Cardno. They are now back looking for a permanent CEO.

An update from fellow engineering company **Logicamms** (LCM) had an all too familiar whiff about it. After a long and seemingly positive preamble Logicamms hit investors with some bad news - project delays will lower profitability by a few million dollars this year. This is not a great sign for a company that has lost more than $60m over the past two years.

While revenue this year is expected to be similar to the $81m booked last year, it will still be down 40% from 2015. Logicamms will need to grow revenue over the next few years to justify even the current share price.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	**(ASX:MAH)**	9.8%
Freedom Insurance Group Limited	**(ASX:FIG)**	6.7%
Enero Group Limited	**(ASX:EGG)**	6.0%
CSG Limited	**(ASX:CSV)**	4.8%
NZME Limited	**(ASX:NZM)**	4.8%
Cash		28.2%

FUND OBJECTIVE

The Fund targets securities that Forager believes are undervalued and invests predominately in securities listed on the ASX. Its investment objective is to outperform the S&P/ASX All Ordinaries Accumulation Index over a rolling 5-year period and its goal is to produce superior long-term returns from a select number of underlying investments, irrespective of short-term price movements^.

FACTS	
Fund inception	30 October 2009
ASX Code	FOR
Income distribution	Annual, 30 June

UNIT PRICE SUMMARY	
As at	30 April 2018
NAV	$1.81
Market Price	$1.90
Portfolio Value	$165.2m

ABOUT FORAGER

With more than $370 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong seven-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

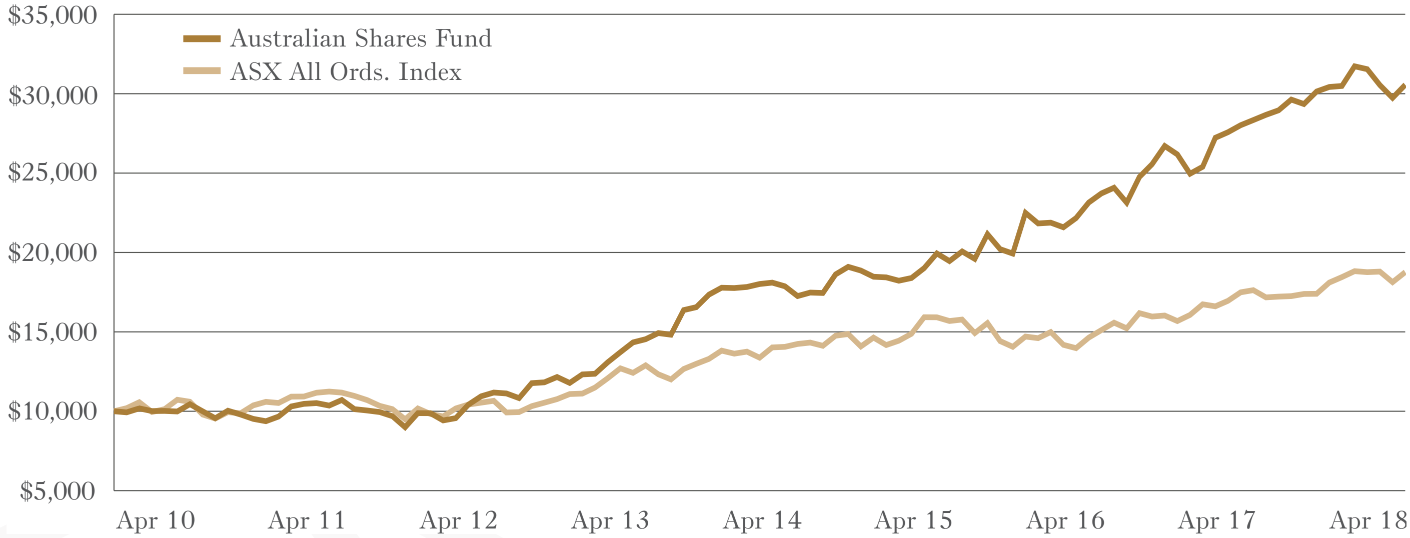
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of ASX-listed stocks
- Long track record in identifying unloved gems
- Restricted fund size allows investment in smaller businesses
- Strong focus on minimising portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers flexibility in distressed markets

COMPARISON OF $10,000 INVESTMENT IN THE FORAGER AUSTRALIAN SHARES FUND VS ASX ALL ORDS. INDEX



Source (All Ords): S&P Capital IQ. The above figures assume that all distributions have been reinvested.
Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.